

# City of Detroit

## CITY COUNCIL

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TO: Pam Scales, Director  
Budget Department (Non-Departmental)

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: April 24, 2009

RE: 2009-2010 Budget Analysis

24.

Attached is our budget analysis regarding the Non-Departmental/Capital budget for the upcoming 2009-10 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Monday, April 27, 2009 at 3:00 p.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Council Members and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

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Attachment

cc: Council Members  
Council Divisions  
Auditor General's Office  
Joseph Harris, Chief Financial Officer  
Pam Scales, Budget Department  
Renee Short, Budget Department  
Arese Robinson, Mayor's Office

## **Non-Departmental (35)**

### **FY 2009-10 Budget Analysis by the Fiscal Analysis Division**

#### **Summary**

#### **Appropriations**

The Non-Departmental agency contains appropriations and revenues for the General Fund not specific to any one department. The Non-Departmental agency budget contains subsidies to various organizations.

The Non-Departmental agency includes funding for a number of organizational units including positions and subsidies to enterprise agencies.

Also included in Non-Departmental are appropriations offset with equal revenue amounts for organizations whose employees are included and paid through the city payroll system such as the Greater Detroit Resource Recovery Authority and Detroit Building Authority.

Over the years on an increasing basis programs with employees have been added to the Non-Departmental budget. When programs with employees are included in Non-Departmental the real line of reporting is blurred in fact completely hidden by the presentation. This allows the administration to obfuscate the number of employees in executive organizations. Consideration should be given to the re-alignment of these organizations into the agencies where the employees ultimately report.

The total appropriations in Non-Departmental are increasing by \$129.0 million, a 27.9% increase, from \$462.1 million to \$591.1 million.

#### **Revenues**

The Non-Departmental agency contains the major revenues supporting the General Fund that are not specific to any one department.

The recommended budget includes estimated revenues of \$1.35 billion, which is an \$86.0 million increase over the current year's budgeted revenue in Non-Departmental, a 6.8% increase.

Due to the magnitude of the major revenues that are budgeted in Non-Departmental, the Auditor General's Office and City Council Fiscal Analysis Division will provide major revenue account analysis in separate reports, including the Administration's rational for revenue projections. The administration needs to provide a number of worksheets supporting their projected revenues both for the current year surplus/deficit estimate and next year's budget. These are required because the most current information is not always available in the financial reporting system. The supplementary worksheets will need to be reconciled to the financial reporting system. It is the Fiscal Analysis Division intent to provide Council with an updated comprehensive surplus/deficit estimate through March 2009 and major revenue analysis for the 2009-10 budget at the start of Council's executive session, highlighting the major differences.

The preliminary review of major revenues indicates the potential to collect the estimated revenues if the local economy levels off. If the local economy continues to decline there is the potential that the estimated revenues will be difficult to collect and mid year adjustments will be required to maintain a balanced budget. At this point there is no indication that it would be advisable to increase the estimated revenues in the 2009-10 Mayor's Recommended Budget.

#### 2008-09 Surplus/(Deficit)

The 2008-09 surplus/deficit estimates submitted by the Budget Department staff indicates a \$1.4 million appropriation deficit, and a \$120.2 million revenue deficit, for a total deficit of \$121.7 million in the Non-Departmental agency. The Budget Department staff surplus/deficit estimate does not include the Prior Year's Deficit Appropriation. The Fiscal Analysis Division is in continuing discussions with the Budget Department to clarify the make-up of their estimates.

#### Personnel and Turnover Savings

Following is information by appropriation comparing budgeted FY 2008-09 positions, March 31, 2009 filled positions and FY 2009-10 recommended positions.

<u>Appropriation/Program</u>	<u>Redbook Positions FY 2008-09</u>	<u>Filled Positions 3/31/2009</u>	<u>Mayor's Budget Positions FY 2009-10</u>	<u>Over/(Under) Actual to 08/09 Budget</u>	<u>Mayor's Recommended Turnover</u>
<b>Non-Departmental (35):</b>					
<b>00276 Greater Detroit Resource Recov. Autho.</b>	11	8	11	(3)	\$-
<b>00277 Detroit Building Authority</b>	9	8	9	(1)	\$-
<b>00972 Cable Communications Comm.</b>	8	5	5	(3)	\$-
<b>00973 Government Access</b>	2	2	2	0	\$-
<b>10397 Board of Ethics</b>	2	2	2	0	\$-
<b>11177 DHRMS</b>	15	11	0	(4)	\$-
<b>TOTAL</b>	<b>47</b>	<b>36</b>	<b>29</b>	<b>(11)</b>	<b>\$-</b>

The Mayor's 2009-10 Recommended Budget does not include any turnover savings for positions included in the Non-Departmental budget.

#### Budgeted Professional and Contractual Services by Activity

##### **Non-Departmental (35)**

<u>Budgeted Professional and Contractual Services by Activity</u>	<u>FY 2008-09 Budget</u>	<u>FY 2009-10 Recommended</u>	<u>Increase (Decrease)</u>
Non-Departmental	\$ 58,922	\$ 58,046	\$ (876)

Board of Ethics	-	-	-
Cable Commission	531,592	733,788	202,196
Detroit Building Authority	-	-	-
Greater Detroit Resource Recovery	-	-	-
DHRMS	-	-	-
Contributions, Subsidies & Advances	<u>250,000</u>	<u>250,000</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 840,514</u></b>	<b><u>\$ 1,041,834</u></b>	<b><u>\$ 201,320</u></b>

#### Appropriation Explanation and Significant Funding Changes by Appropriation

##### Appro.    Program

00199	Public Commemorations	This \$3,000 appropriation provides the funding for the purchase of flags for placement on Veteran's graves by veteran organizations on Memorial Day.
00204	Organization For Cities	<p>This appropriation is increasing by \$5,202. This appropriation includes dues and memberships in the City's name to the some or all of the following organizations. The amounts in brackets represents current year expenditures to date:</p> <p>Michigan Municipal League (\$159,381),  SEMCOG (\$32,415),  U.S. Conference of Mayors (\$26,216),  National League of Cities (\$26,300),  Government Finance Officers Association (\$2,995),  Conference of Black Mayors  International Great Lake/St. Lawrence Conference  Recreation MPLC – Licensing Certification (\$3,749)  Recreation ASCP Government Licensing (\$6,544.50)  Woodward Avenue Action Association (\$13,500)  SESAC Inc. (\$3,690)  BMI (\$7,133)</p>
00276	Greater Detroit Resource Recovery Authority (GDRRA)	The appropriation for GDRRA is decreasing by \$57,838 and covers the cost of the GDRRA staff paid through the city payroll system. There is estimated revenue from GDRRA in an amount equal to this appropriation. These accounts represent the pass through of the GDRRA payroll on the City's records. With no changes to the GDRRA positions, the reduction represents the net of the 10% salary reduction and changes to pension and fringe benefits for the GDRRA staff.

00277 Detroit Building  
Authority (DBA)

The appropriation for the DBA is decreasing by \$81,922. There is an estimated revenue amount from the DBA in an equal amount to offset this appropriation. The appropriation and estimated revenue accounts represent the pass through of the DBA payroll on the City records. The decrease represents the net of the 10% pay reduction and pension and fringe benefit changes for the DBA staff.

00341 Tax Support –  
DOT

The appropriation provides the general fund support necessary for the Department of Transportation to conduct operations. The subsidy to DOT is decreasing by \$5.1 million, or 5.9%.

The continuation of general tax dollars in support of operations that as enterprise funds should be self-sufficient warrants review. If the total subsidy cannot be eliminated all at once, the agency should be put on notice that the subsidy will be eliminated over a manageable timetable, possibly 3 years.

Another strategic alternative to consider for DOT would be an agreement for the consolidation of transportation systems in the region. A goal that recently has been overshadowed by other issues, but needs to be brought to the forefront by the City of Detroit, possibly as part of the rapid transit initiative and or Federal Stimulus funding. This would relieve the City of Detroit from the direct financial drain of \$80 million or more annually that DOT has become on general tax dollars.

- |       |                                    |   |
|-------|------------------------------------|---|
| 00347 | Airport Subsidy                    | <p>The appropriation is decreasing by \$138,510 to \$790,355. This is a 14.9% decrease in the subsidy.</p> <p>The direct benefits or even indirect, if any, to the citizens of Detroit compared to the on going subsidy (including allocation of capital) required by the Airport, makes this a luxury that the City may not be able to afford any longer. Can the airport be considered a core service?</p> <p>For the past few years it has been promised that an operator can be found to operate the facility at a profit, but the promise remains unfulfilled. Within the last few days, a long talked about operational transfer to a private operator collapsed in Chicago for the operation of Midway Airport. The agreement fell apart due the inability of the operating consortium to borrow the necessary funds.</p> <p>It may be the time to plan an orderly closer of the Airport considering potential alternate development options for the land. In March 2003 Chicago discontinued the operations of Meigs Airport within their city.</p> |
| 00396 | World Trade Program                | <p>This appropriation is for the City portion of the cost of the Detroit Port Authority operations.</p>   |
| 00362 | Tax Increment Districts            | <p>The appropriation is used to allow the taxes collected by the City to be paid to the various increment districts. The appropriation is decreasing by \$5.6 million, a 27.97% decrease.</p>   |
| 00636 | Distributed State Aid – LTGO 1989A | <p>The appropriation is not included in the budget, a reduction of \$13.6 million.</p>  |

00852    Claims Fund  
          (Insurance  
          Premium)

This appropriation is increasing by \$20.5 million. In the initial discussions with the Budget Department it was indicated that this account may be over funded by \$6.0 million, due to the inclusion of an amount twice. If this is verified, the staff of the Fiscal Analysis Division will notify Council.

The appropriation represents the General Fund portion of funding for the Self-Insurance Claim Fund. When originally established a five-year history of claims payouts was used to determine the required annual contribution. Over the last few years the administration has been reducing the amount contributed to the fund. Preliminary discussions indicate that the Administration is returning to the five-year history of claims payment analysis in order to adequately fund the claims operation.

00939    Supp. Fee  
          (GDRRA)

This appropriation and offsetting and equal estimated revenue is being removed from the budget, decreasing by \$57.2 million from the current budget. The agreements that required this arrangement will not be in place after June 30, 2009 so the pass thru arrangement as outlined below will no longer be required in the budget.

The supplemental fees relate to the sale-leaseback transaction involving the sale of the Greater Detroit Resource Recovery facility. The city sold the facility to private investors on October 23, 1991. As a part of the transaction, the city agreed to pay an outside operator of the facility a supplemental fee equal to the amount of the lease payment the outside operator pays to the private investors. This appropriation represents the supplemental fee to the outside operator. As part of the purchase price, the private investors took on a mortgage. The mortgage payment to the city equals the amount of the lease payment, which equals the supplemental fee. Bond counsel recommended that the transaction flow be reflected in the Non-Departmental budget starting in FY 1995-96. The result of the transaction has no affect on the General Fund.

00972    Cable  
          Communications  
          Commission

The appropriation is decreasing by \$238,195. This appropriation funds the main operation of the Cable Commission. The number of positions recommended for the Cable Commission is decreased by 3 positions in the Mayor's Recommended Budget.

00973	Government Access	The appropriation is increasing by \$570,275. The appropriation funds the government access portion of the Cable Commission. The capital expenditure category is increasing by \$525,400.
05414	Museum of African-American History	This appropriation of \$1.7 million represents a subsidy to the museum for operational costs (salaries, contractual services, marketing and public relations). The Mayor's Recommended Budget decreases this appropriation by \$2.3 million, or 58.0%.
10633	Internal Service Fund-Vehicles	<p>The appropriation in the Internal Service Fund - Vehicles is decreasing by \$14.4 million, to zero. This appropriation equals the amount of vehicles to be purchased by the fund during the year. The appropriation is supported by the revenue from the sale of bonds to finance the purchase of the vehicle.</p> <p>The elimination of this appropriation indicates the administration's plan to not purchase vehicles in the next fiscal year.</p>
10634	City Vehicles – Lease Purchase	The appropriation in the General Fund of \$2.5 million is decreasing by \$13.6 million. The appropriation allows the payment, as a lease, to the Internal Service Fund for vehicles previously purchased by the fund and financed with bonds that are currently being used for operations.
12370	Internal Service Fund-Vehicle Debt Service	The appropriation in the Internal Service Fund for vehicles makes the payment of the principal and interest on bonds previously issued by the internal service fund for vehicles purchases. This appropriation ties directly to the general fund appropriation 10634.
11177	DHRMS (Previously Program Management Office)	The appropriation is increasing by \$2.7 million to a total of \$7.8 million and all 15 positions are removed in the recommended budget. The appropriation includes the remaining debt service on the GE capital financing of the project.



11519	Fiscal Stabilization Bond Expense	The appropriation includes the interest and principal on the \$61 million deficit funding bonds sold during the 2003-04 year to address the 2002-03 deficit of \$69 million. The deficit funding bond proceeds were used in addition to the \$8 million in the budget stabilization fund to cover the operating deficit of \$69 million. The appropriation is decreasing by \$40.2 million to zero, as the bonds were paid off in the current year. The large amount of the final payment was due to the back loading of the repayment of the 2003-04 bonds.
12651 12653 12699	GO Bonds DIA Historical MAAH	These 2008-09 appropriations provided for bond capital to the Detroit Institute of Arts of \$100,000, Historical of \$17.2 million and the Museum of African American History of \$955,000. The 2009-10 Mayor's Recommended Budget does not include bond capital.
12897	DIA Operating Subsidy	This is a new appropriation from last year. The recommended subsidy to the Detroit Institute of Arts is \$500,000.
12949	POC Transaction	This is a new appropriation that has an equal and offsetting amount on the revenue side. The specific appropriation is being required as a result of the agreement resolving the interest rate SWAP termination related to the Pension Obligation Certificate (POC) transaction. The requirement results in a double counting of the expense offset by the new revenue, and increases the transparency of the payment to individuals and investors outside of the City, not familiar with how the City allocates the pension factors against the payroll.

In the current and previous budgets the allocation of the cost of the POC's principal and interest payment, was allocated to each payroll account by way of the pension factor. Payment of the principal and interest payment was made from the balance sheet accounts that captured the results of the pension factor as each payroll was processed when the payment was due, and appropriate year ending entries reconciled the budget and balance sheet accounts.

A requirement of the interest rate SWAP termination event negotiations is that a specific appropriation must be made in each year's budget to represent the payment of principal, interest, and SWAP termination agreement related to the POC's.

The flow of the pension factor will now include the collection of the estimated revenue in Non-Departmental in this appropriation along with the recording of the payment against this appropriation.

### **Significant Revenue Changes by Appropriation and Source**

<u>Appro.</u>	<u>Program</u>	
04739 401110	General Revenue Property Tax, including Uncollectible Property Tax	The projected revenue of \$167.8 million for the 2008-09 net property tax collections reflects a \$9.8 million, 5.5% decrease over the current year budget. The ad valorem taxable value of property has decrease by 3.8%, and the projected collection rate factor is 96%.
402100	Prior Years Real Prop. Tax	The revenue account is decreasing by \$2.5 million to a total of \$800,000.
402200	Prior Years Pers. Prop. Tax	The estimated collection in the account is decreasing by \$770,000 to a total of \$100,000.
404100	Municipal Income Tax	The decrease of \$30.0 million brings the projected revenue for income tax to \$245.0 million. The tax rate of 2.5% for residents, 1.25% for non-residents, and 1% for corporations is unchanged. The administration's real assumed growth for income tax is a negative 3.9% of the projected collections for the current year of \$255 million. The \$255 million current year collection estimate represents is \$20 million less than the current budget of \$275 million.
405200 405300	Wagering Tax Percentage Payment	Combined these two revenue accounts are decreasing by \$18.2, to a total of \$176.9 million. This decrease represents a negative 9.3% growth in the wagering tax revenues budget to budget.
422141 422142	State Revenue Sharing	The total of these revenues is \$275.2 million. An decrease of \$4.2 million. Part of the revenue (\$64.4 million) is funded constitutionally and fixed by formula. The other larger portion (\$210.8 million) is funded by state general appropriation statute and is also based on a formula. The State has used reductions in payment of revenue sharing to local governments to address State budget problems, and the State's budget problem could jeopardize the statutory portion of this revenue.
06925	Temp Casino Site	This \$16.9 million represents the municipal service fee the casinos pay annually. They are required to pay the greater of \$4 million or 1.25% of net collections. The \$200,000 increase in collections represents only a 1.2% increase in revenue budget to budget.

12949	POC Transaction	This is a new revenue in the same amount as the appropriation required as a result of the negotiations that resolved the interest rate SWAP termination event that took place in the current fiscal year. See appropriation comments above.
12950	Detroit Windsor Tunnel – Securitization	These three new revenues represent proposed securitization agreements for the Detroit Windsor Tunnel (\$100 million), Parking System (\$100 million) and Public Lighting (\$75 million) being investigated by the administration. The amount of these agreements in total are within \$5.0 million of the estimated accumulated deficit of \$280 million included in the 2009-10 Mayor's Recommended Budget.
12951	Parking System – Securitization	
12952	Public Lighting - Securitization	

### Issues and Questions

1. Explain the city-wide benefits or services provided for the expenditures in the current year for the following organizations:
  - a. Recreation MPLC – Licensing Certification (\$3,749)
  - b. Recreation ASCP Government Licensing (\$6,544.50)
  - c. Woodward Avenue Action Association (\$13,500)
  - d. SESAC Inc. (\$3,690)
  - e. BMI (\$7,133)

And are these organization fees included in the 2009-10 Mayor's Recommended Budget?

2. What priority is the administration placing on making DOT self-supporting or possibly merging with SMART? Are there any active negotiations? Is any effort being made in Lansing to relieve the Detroit taxpayers of the \$80 million annual burden of the DOT subsidy?
3. Update Council on the process of securing an operator for the Airport. While it has been promised for at least a few years that an operator (profitable) could be found, what are the two or three main obstacles to running the facility at a profit? How can these obstacles be overcome? At what point should the City consider ceasing operations, or closure of the facility? Since the predictions of an operating agreement have not proven true. Even if the results would be to allow the FAA or other Federal agency, State or County to take it over?
4. Explain for Council the current formula used for the Risk Management Fund claims analysis that supports the increase in the payment to the Risk Management Fund. Highlight any change in the analysis or assumptions. What are the benefits and/or drawbacks of splitting the Risk Management Fund payment to each individual agency based on past claim payouts?

5. The appropriation for Tax Increment Districts is dropping by \$5.6 million, please explain if this is due to valuations decreases in the districts or for other reasons. What is happening to the GM-TIFA Revenue Distribution?
6. Why is the appropriation for Distributed State Aid – LTGO – 1989A being eliminated? If the appropriation is no longer required, what was the reason for the departmental request of \$13.6 million?
7. With the reduction of the appropriation for the Human Resource and Payroll project to only the GE Capital principal and interest payment, and the transfer of positions from the project to other agencies, provide the current status of the project and anticipated “go live” or date the project will go into production throughout the City. Provide a comparison of the total project budget to total project expenditures. What portion of expenditures were provided by funds other than the general fund?
8. Concerning the appropriation and revenue for the Parking System Operating Advance, the budget presentation balances the amount. Over the last three to four years has the general fund subsidized the Parking System through these accounts? By year what has the subsidy been? Has or will the Parking System make up these amounts in future periods if operations allow?
9. What capital expenditures are included in the recommended budget in the Government Access Appropriation for the Cable Commission?
10. With the ending of the debt service and agreements relating to the Resource Recovery Facility why is the Greater Detroit Resource Recovery Authority and staff still required? What responsibilities does the staff have with the changing relationship of the facility and city? Or can these activities be brought back within the city’s solid waste fund, saving nearly \$1.0 million?
11. Provide the Council with schedules that support the debt payment amount for the Internal Service Fund – Vehicles. Include previously sold bond amounts and dates along with the required debt payments in the future. Also include any outstanding authorization for vehicle bond sales and anticipate sale dates.
12. Explain the decision to not include vehicle purchases in the recommended budget. How will this affect the normal replacement cycle for vehicles? Wasn’t one of the purposes of the vehicle fund to smooth out the cost of the fleet? If so, does this decision represent a short- term savings with future increases in costs? How will this affect the maintenance of vehicle operation, especially with the recommended reduction in fleet management positions?
13. What is the payment schedule for the 800 Megahertz payments? When will the project be completely paid off?
14. With the operation of the Detroit Institute of Arts being the responsibility of the Founder’s Society for a number of years, explain the need to institute a subsidy at this time. What specifically will the subsidy support at the DIA?

15. Explain the status of the audit that was conducted on personal property tax assessments. Relate the audit results to the reduced recommendation on prior year personal property tax collections.

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